

S T A T E O F W A S H I N G T O N

PROPOSED 2003-2005

BUDGET AND POLICY HIGHLIGHTS

We will make education the first priority in every budget we write.

— Governor Gary Locke
Inaugural Address, January 15, 1997

GOVERNOR GARY LOCKE
OFFICE OF THE GOVERNOR



2003-05

BUDGET AND POLICY HIGHLIGHTS

Office of the Governor

DECEMBER 2002

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Funding Priorities of Government

"We are focusing on results that people want and need, prioritizing those results, and funding those results with the money we have."

Governor Gary Locke
November 14, 2002

Governor Locke's Priorities:

1. Improve **student achievement** in elementary, middle and high schools
2. Improve the quality and productivity of our **workforce**
3. Improve the value of a state college or university **education**
4. Improve the **health** of Washington citizens
5. Improve the **security** of Washington's vulnerable children and adults
6. Improve the **economic vitality** of businesses and individuals
7. Improve statewide **mobility** of people, goods, information and energy
8. Improve the **safety** of people and property
9. Improve the quality of Washington's **natural resources**
10. Improve **cultural** and **recreational opportunities** throughout the state

NOTHING ABOUT GOVERNOR GARY LOCKE'S spending plan for the next two years is business as usual.

This budget meets the challenge of a \$2 billion General Fund deficit resulting from recession and slow economic recovery. It requires changes to three voter-approved initiatives. And it represents fundamental change in state budgeting that lays the foundation for a new state government that renews the trust of the people who pay for it.

Results for Washington Citizens

The Governor's proposal departs from traditional budgeting by starting with the results citizens want from government and then spends resources on those services and programs that clearly contribute most to the results.



This budget requires no general tax increase. It will limit spending by \$2.4 billion, including reductions of nearly \$2.1 billion in the General Fund and \$275 million in the Health Services Account.

The Governor continues to shrink the state workforce, eliminating a total of 2,500 full-time positions by Fiscal Year 2005. State workers and teachers receive no cost-of-living raises, and state-funded employees pay a larger share of their health insurance costs.

The Priorities of Government:

An Innovative Process for Developing a Budget

The process used to develop the Governor's 2003-05 budget proposal departed from the traditional approach of cutting or adding to an existing budget. It began with a government-wide assessment of state services that had two primary purposes:

1. Establish a clear set of results that citizens expect from state government.
2. Reprioritize state spending to focus on services that matter most in achieving those goals.

What Matters Most

The first step required agencies to prioritize their activities. Agencies were directed to identify those activities as high, medium or low priority when compared to an agency's core mission. The low-priority category activities had to account for at least one-third of the agency's budget.

Results Teams on a Fast Track

The next step was a fast-moving project that considered this information as it explored fundamental changes in the way state government operates.

Under the direction of a management team that included private-sector representatives, 10 multi-agency results teams were charged with looking beyond the borders of their own agencies for the means to maintain or improve high-priority services despite budget constraints. That means:

- ☞ Viewing state government as a single enterprise.
- ☞ Achieving results, at less cost, through creative budget solutions.
- ☞ Reprioritizing spending, eliminating programs or consolidating similar activities in different agencies.

Delivering Results

This approach restructured the way state services would be provided and eliminated programs less essential to achieving critical results. Informed by this process, Governor Locke's 2003-05 budget proposal delivers services that matter most to Washington citizens.

The Priorities of Government

Work on this budget began last summer with an unprecedented request that agencies rate their activities as high, medium or lower priority. Agencies were required to list at least one-third of their individual budgets as lower priority.

The next step was to identify for state government 10 primary goals against which all spending recommendations would be measured. The third step prioritized all services and programs by function rather than by agency, and after close scrutiny, funded only those services that helped reach the goals.

Starting the Debate

This budget seeks to make the best use possible of revenue that is available. The Governor welcomes debate over the goals he has set for state government, as well as the tough decisions he believes are necessary to meet these priorities.

But he firmly believes that new ideas must be supported by clear evidence that they truly will help the state achieve its goals.

What This State Budget Does

The first responsibilities of state government are to educate, medicate and incarcerate, which account for nearly 87 percent of the General Fund budget.

Funding for public schools and state colleges and universities account for 56 percent of General Fund spending. Providing health care and protecting vulnerable children and adults requires 21 percent, and public safety, including the prison system, accounts for 10 percent.

General government costs 3 percent. Protecting natural resources requires 2 percent and other mandatory costs – for debt service and the state pension system – account for 8 percent.

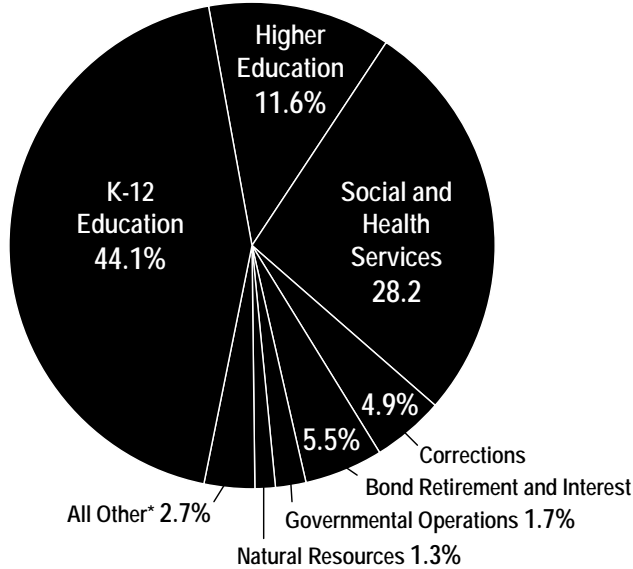
Education is Still the Highest Priority

Education remains the highest priority of the Governor's budget, but changes must be made to put school funding in line with an economy that has reduced projected state revenue by \$1.1 billion since the September 11 terrorist attacks, as well as health care costs rising at an annual rate of 14 percent.

Proposed Budget Expenditures

General Fund-State: Operating

Distribution of 2003-05 General Fund-State Expenditures

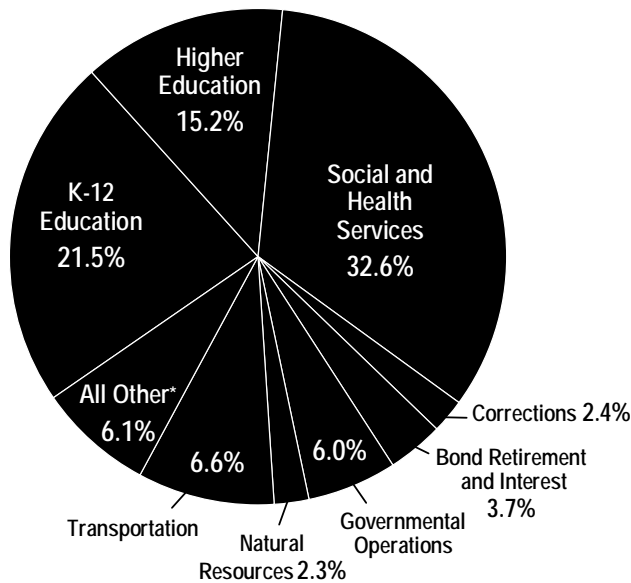


Category	Dollars in Millions
K-12 Education	\$10,137
Higher Education	2,670
Social and Health Services	6,479
Corrections	1,122
Bond Retirement and Interest	1,253
Governmental Operations	394
Natural Resources	311
All Other*	613
TOTAL	\$22,979

*Other includes Legislative, Judicial, Other Human Services, Transportation, Contributions to Retirement Systems, Other Education, and other appropriations.

All Funds: Operating Plus Transportation Capital

Distribution of 2003-05 All Funds Expenditures



Category	Dollars in Millions
K-12 Education	\$12,093
Higher Education	7,327
Social and Health Services	15,750
Corrections	1,156
Bond Retirement and Interest	1,789
Governmental Operations	2,894
Natural Resources	1,096
Transportation	3,185
All Other*	2,962
TOTAL	\$48,252

*Other includes Legislative, Judicial, Other Human Services, Contributions to Retirement Systems, Other Education, and other appropriations.

Scaling Initiatives to Current Economy

Initiatives 728, 732, 773

THIS BUDGET PROPOSAL requires the Legislature to make changes to three voter-approved initiatives to account for priorities set by the Governor for this spending plan, the downturn in the economy and double-digit inflation in the cost of health care. The changes would:

1. **Cancel \$221 million in funding** for additional class-size reduction in public schools that is scheduled, under Initiative 728, for the 2004-05 school year.

This initiative, which increased public-schools funding by \$440 million during the past two years, was approved when the economy was doing well, but came with no funding source to sustain it in hard times.

2. **Eliminate \$229 million** for automatic annual cost-of-living increases that Initiative 732 provides for teachers.

With 80,000 jobs now lost across all economic sectors of the state economy, a pay raise for a single group of state-funded employees is not appropriate.

3. **Redirect new cigarette tax revenue** from Initiative 773, which was intended to expand the state's Basic Health Plan for working families, so that the state can minimize enrollment reductions now necessary to simply sustain the health-insurance program.

The Governor's education budget:

- €# Provides \$10.6 billion – nearly half of total General Fund spending – for basic education services for 1 million public-school students, maintains reduced class sizes and increases funding to improve academic achievement and get low-performing schools on track.
- €# Eliminates \$545 million by canceling cost-of-living adjustments for teachers and a scheduled class-size reduction in the 2004-05 school year, and by making program reductions affecting levy equalization funding and block grants for schools.
- €# Provides \$2.7 billion to fund enrollment of more than 215,000 at the state's colleges and universities, including 1,550 new enrollment slots in high-demand fields.
- €# Cuts the higher education budget 2.5 percent in non-instructional programs, or \$40 million, and grants state colleges and universities additional tuition-setting authority. Anticipated tuition increases to cover state funding reductions are capped at 9 percent a year.

Economic Development

Washington State has lost nearly 80,000 jobs since the terrorist attacks, which exacerbated the downturn in the national economy. Effects of the recession remain deep and persistent, reflecting weakness in the aerospace industry and the downturn in the technology sector. Governor Locke takes steps to rejuvenate Washington's economy. His proposal:

- €# Provides \$108 million from several sources to nurture economic development through strategies that create new jobs, assist new industries such as biotechnology and clean energy, assist local economic development efforts, operate the Washington Trade and Convention Center and market Washington products to the world.
- €# Provides \$654 million in capital funds for infrastructure to accommodate private sector expansion including funding to build sewer and water systems, cleaning up contaminated sites to allow development and financing for other facilities for businesses and workers.
- €# Provides \$87 million to state colleges and universities for increased enrollment in high-demand fields and for workforce training programs that give workers the skills they need to get good jobs, and give industries the skilled workers they need to succeed.

Washington's Economic Picture

The Present

Washington State's economy dipped into recession in Fiscal Year 2002. After years of prosperity, wage and salary employment declined for the first time in 20 years. Personal income grew at a rate of only 2.5 percent in the fiscal year. In some months, Washington had the highest unemployment rate in the nation.

The state was hit hard by the national recession, as well as the impact on aerospace employment in Washington that resulted from financially weak air carriers and the decline in air travel after the events of September 11.

The Future

The recession continued into Fiscal Year 2003, but the outlook includes beginnings of a recovery. Wage and salary employment in Washington is forecast to decline again in Fiscal Year 2003, but only by 0.7 percent. Real personal income growth is predicted to remain weak.

However, personal income is expected to rebound sooner than employment, growing by 3.8 percent in Fiscal Year 2003. General Fund-State revenue is forecast to decline slightly in the 2001-03 Biennium compared to the 1999-2001 Biennium due to the recession, but bounce back to a more normal rate of growth in the 2003-05 Biennium.

The November 2002 forecast by the state Economic and Revenue Forecast Council found that growth in Washington's wage and salary employment is expected to catch up with U.S. growth by Fiscal Year 2005, with growth of 1.8 percent in Fiscal Year 2004 and 2.4 percent growth in Fiscal Year 2005. U.S. wage and salary employment is forecast to increase by 2.3 percent in Fiscal Year 2004 and 2.2 percent in Fiscal Year 2005.

Washington's personal income growth also will rebound in Fiscal Years 2004 and 2005, with growth of 4.4 percent and 6.1 percent respectively. However, Washington's personal income growth will lag slightly behind U.S.

personal income growth, which is predicted to be 5.5 percent in Fiscal Year 2004 and 6.4 percent in Fiscal Year 2005.

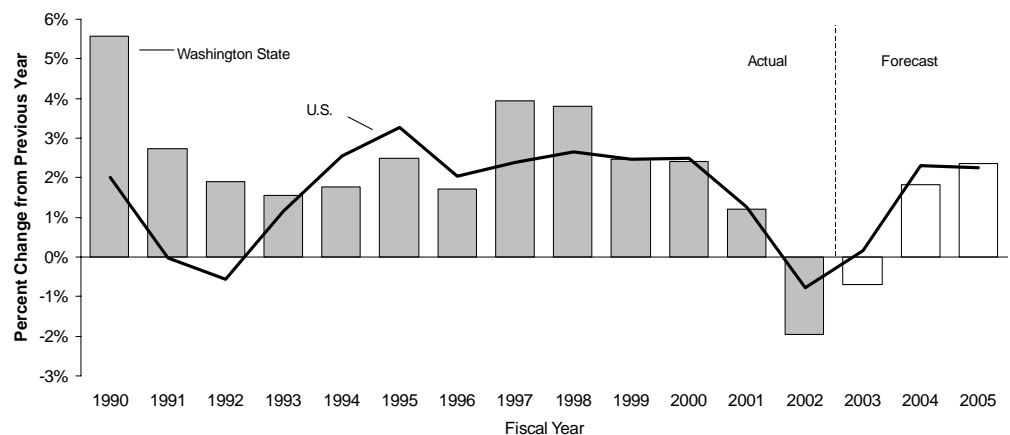
Manufacturing employment in Washington is projected to continue its decline into Fiscal Year 2004. The forecast council suggests that the aerospace employment decline in Fiscal Year 2003 (loss of 12,200 jobs) is expected to carry forward into Fiscal Year 2004 with a further reduction in aerospace employment of 7.1 percent, slowing to a decline of only 1.4 percent in 2005.

Despite an overall decline in manufacturing jobs of about 7,000 in Fiscal Year 2003, growth in all other manufacturing sectors is expected to return in Fiscal Year 2004. Non-aerospace manufacturing employment is expected to grow by 0.3 percent in Fiscal year 2004 and 1.7 percent in Fiscal Year 2005.

In the non-manufacturing sectors, the strongest growth is predicted to occur in services. Employment growth is also expected in finance, insurance and real estate, the federal government, and retail and wholesale trade. Construction employment will remain weak at the beginning of the next biennium with a decline of 0.5 percent in Fiscal Year 2004. By Fiscal Year 2005, construction employment should regain some momentum and grow by 3 percent.

Employment growth in transportation, communications and public utilities employment is predicted to increase substantially after Fiscal Year 2003, by 4.5 percent in Fiscal Year 2004 and 4.6 percent in Fiscal Year 2005. State and local government employment is expected to fall by 0.7 percent in Fiscal Year 2004 but return to modest growth of 0.7 percent in Fiscal Year 2005 as the economy helps hard-hit tax revenue begin to recover.

Percent Change in Wage & Salary Employment
Washington State vs. U.S. Average



SOURCE: Office of Financial Management, 2002

Containing Labor Costs

Cutting 2,500 State Government Jobs

GOVERNOR LOCKE'S drive to cut the size of the Washington State payroll will mean a net reduction of 2,500 full-time state jobs between the spring of this year and the end of the next biennium.

The supplemental budget signed by Governor Locke in April reduced government employment by 939 full-time jobs. The Governor then set an additional reduction target of 402 jobs, or FTEs, for his Cabinet agencies in April 2002.

In view of the state's difficult economic and fiscal conditions, effective December 17, 2002, Governor Locke ordered his Cabinet to triple the reduction target from 402 to 1,200 – a target to be reached by June 30, 2003.

Agency directors will do this by filling only a portion of the positions that come vacant through attrition – and focusing on reducing the size of their middle-management ranks.

Agency budgets for the 2003-05 Biennium follow purchase plans laid out through the Priorities of Government process that call for additional reductions throughout government amounting to more than 1,300 FTEs by June 30, 2005.

Taken together, these actions yield a net reduction of more than 2,500 FTEs in state government by the end of the 2003-05 Biennium.

Holding the Line on Labor Expenses

Difficult times require labor-and-vendor cost cuts across state government – saving \$774 million. This means state employees and vendors will not get \$351 million in cost-of-living pay adjustments this biennium.

Another \$111 million is saved by requiring employees and teachers to pay 20 percent of the monthly premium cost of their health plans – up from the 14 percent they pay now. Foregoing teacher and community college cost-of-living adjustments saves another \$229 million. Adopting an actuarially sound, but less conservative, pension funding methodology saves \$83 million in pension contributions.

Children's Health is Emphasized

Despite large, continuing increases in health care costs, the Governor's budget continues to fund all existing health care programs for children. Rapidly rising costs mean the number of adults served by the Basic Health Plan are reduced and some optional adult-care programs are eliminated. Meanwhile, funding for community clinics is increased. This budget:

- ≠ Provides \$3.7 billion in state funds for health care for more than 908,000 vulnerable children and adults, the public health system, health insurance for nearly 81,000 low-income people and increased funding for community clinics.
- ≠ Eliminates \$328 million, ending Basic Health Plan coverage for 59,800 adults and optional medical care programs for Medicaid patients.

Safety Net Remains for Most Needy

The safety net for vulnerable children and adults is maintained to make sure they are fed, sheltered, and safe from abuse and neglect. Care is provided for foster children and adults who are unable to take care of themselves.

The Governor's proposal:

- ≠ Provides \$3.8 billion in state funding for Child and Adult Protective Services, emergency food and housing, mental health care, institutions, nursing homes, foster care, temporary assistance to needy families, employment training for disabled adults and child support services.
- ≠ Eliminates \$215 million in human-services activities deemed less necessary to meet the most immediate health and safety needs.

Safe Communities

The September 11 terrorist attacks and the Nisqually earthquake were stark reminders that we must be ready for disasters. The Governor's public safety budget keeps Washington well prepared to respond to emergencies and continues services that keep citizens safe in their homes.

While violent and sex offenders will remain behind bars, the Governor's plan slows the rapid rise in prison costs by releasing low-risk offenders. The Governor:

- €# Provides \$1.4 billion to confine 15,500 dangerous to moderate-risk adults in state prisons, supervise 16,800 higher-risk adults released from prison, operate juvenile justice services, keep 200 dangerous sex predators in secure facilities, fund the State Patrol, provide driver and vehicle licenses, and administer business and professional licensing.
- €# Saves \$99.6 million by reducing the number of low-risk offenders in prison by 1,200, and eliminates state supervision of another 2,900 low-risk offenders who have completed prison time and 22,000 who have completed jail sentences. Reducing supervision of low-risk offenders allows community correction officers to focus on the high-risk offenders who present the greatest threat to public safety after they leave prison.

Reducing Government Costs

Governor Locke reduces the size and cost of general government. The Governor's plan:

- €# Cuts the number of full-time jobs in the state-government workforce, bringing the total reduction begun in 2002 to 2,500 positions by Fiscal Year 2005 – a savings of \$100 million in salary and benefits. This represents a 4.4 percent reduction in the state's general-government workforce.
- €# Again provides no cost-of-living increases for state employees and vendors, saving \$351 million. The budget also increases state-funded employees' share of health-insurance costs, shifting \$111 million in insurance premium costs to state workers, teachers and higher education staff.
- €# Saves \$12.3 million by consolidating and eliminating several agencies and commissions.

Containing Administrative Costs

Careful reprioritization and consolidation of state government's "back office" is an essential step to providing better services at lower costs.

An extensive review of state government's internal operations was conducted in 2002 to find as many cost effective ways as possible to reduce costs. Adopting "best practices" that rely on state-of-the-art accounting, reporting and information systems will help agencies focus on their core competencies and missions.

State government's overhead costs for telecommunications, purchasing, financial services, legal advice, facilities, personnel systems and information technology will be substantially contained by:

- ' · Aggressive expansion of existing electronic budgeting, accounting and reporting systems.
- ' · Increased use of Web-based self-service tools such as the electronic Travel Voucher System that helps travelers prepare reimbursements easily, quickly and with fewer errors.
- ' · Renewing the Department of Social and Health Service's core financial management, reporting and cost allocation systems by bringing DSHS into the central systems operated by the Office of Financial Management.
- ' · Replacing the current antiquated and expensive personnel/payroll system with a modern system that meets the needs for effective management information, self-service capabilities and ease of maintenance and use.
- ' · Curtailing proliferation of individual agency-specific financial and administrative systems that replicate existing centralized systems so agencies can focus on their core competencies.
- ' · Moving agencies to lower cost, easier to serve, and more consolidated physical space to improve working conditions for staff while saving lease and facilities costs.

Protecting Natural Resources

Washington's abundant natural resources are enormously important to our citizens and to the state's economy. Protecting our water, forests, farmlands, fish and parks requires hard work by several agencies. The Governor:

- €# Provides \$311 million in state funds for activities of the Department of Natural Resources, Department of Ecology, Department of Agriculture, Department of Fish and Wildlife, State Parks and Recreation Commission, and other natural resources agencies.
- €# Cuts \$25 million by consolidating or eliminating less critical services and closing some parks. Transfers \$13.5 million to dedicated natural resources funds for certain environmental-protection responsibilities currently paid for by the General Fund.

Transportation

Washington's economy must have a state transportation system that moves people and goods quickly. Voters in November rejected Referendum 51, a \$7.7 billion transportation plan, but Washington still badly needs improvements to highways, public transit systems, state ferries and rail service. The Governor proposes a current-law transportation budget using \$3 billion in existing state revenue to:

- €# Preserve and protect existing transportation investments.
- €# Finish transportation projects currently under way.
- €# Target scarce remaining transportation dollars to speed up traffic flow on dangerous highways.

Construction Budget

Reduced revenue projections limit the state's borrowing capacity to finance state construction projects. More than ever, construction dollars must be used in a way that maximizes benefits to citizens and essential state programs. Projects funded by the Governor's \$2.5 billion capital budget include:

- €# \$365 million to match locally approved funding for public-school construction.
- €# \$535 million to increase funding for construction at state colleges and universities – primarily at community colleges, where rapidly increasing enrollment has created an urgent need for new classroom space.
- €# \$306 million for construction of facilities to house high-security offenders, and to meet other facility needs at other institutions.

Reserve Funds

General Fund reserves are drawn down by \$235 million to cover costs of the 2003 Supplemental Budget, which is necessary to pay for unforeseen expenses in the current biennium, such as fighting forest fires and mandatory caseload and enrollment changes. Fund transfers and other minor revenue adjustments provide \$149 million in new resources. The Governor's budget plan for the next biennium leaves \$271 million in reserve accounts.

2003-05 Balance Sheet

General Fund - State and Emergency Reserve Fund
(Dollars in Millions)

Resources

Beginning Fund Balance (after 2003 Supplemental)	133.3
November 2002 Revenue Forecast	22,689.7
Local Government Infrastructure	(10.0)
Impact of SB 6835	60.0
Technical Revenue Changes	5.0
Elimination of Fiscal Year 2005 Initiative 728 Increase	220.7
	<hr/> 22,965.4
Transfers from Other Funds	94.3
Total Resources (Revenues plus Beginning Balance)	<hr/> 23,193.0

Initiative 601 Expenditure Limit

November 2002 Limit as adjusted for 2003-05 Budget	23,715.4
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Expenditures

Governor's Proposed 2003-05 Budget	22,979.4
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Unrestricted General Fund Reserve

Unrestricted Balance	213.6
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Emergency Reserve Fund

Beginning Balance	55.1
Interest Earnings	1.9
	<hr/> 57.1

Total Reserves	270.7
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Balance Sheet Detail for Revenues and Fund Transfers

General Fund - State

(Dollars in Millions)

2003-05

Technical Revenue Changes

Amending the Definition of Business Successor	0.6
Changing the Basis of Interest on Tax Underpayments	0.4
Improving the Collection of Sales Tax at Special Events	4.0
	<hr/> 5.0

Transfers from Other Funds

State Convention and Trade Center	10.0
County Sale/Use Tax Equalization	0.1
Municipal Sale/Use Tax Equalization	0.4
Landowner Contingency Fire Suppression	3.0
Asbestos Account	0.2
Industrial Insurance Premium Refund	0.6
Electrical License Account	7.0
Public Service Revolving Account	1.0
Site Closure Account	13.8
Agricultural Local Account	4.0
Insurance Commissioner's Regulatory	1.0
State Forest Nursery Revolving Account	0.5
State Treasurer's Service Account	19.0
Pollution Liability Insurance Program Trust	27.5
Dept of Retirement Systems Expense	1.5
Gambling Revolving Account	1.5
Pressure Systems Safety Account	1.0
Natural Resource Real Property Replacement	2.0
TESC Capital Projects Account	0.3
	<hr/> 94.3



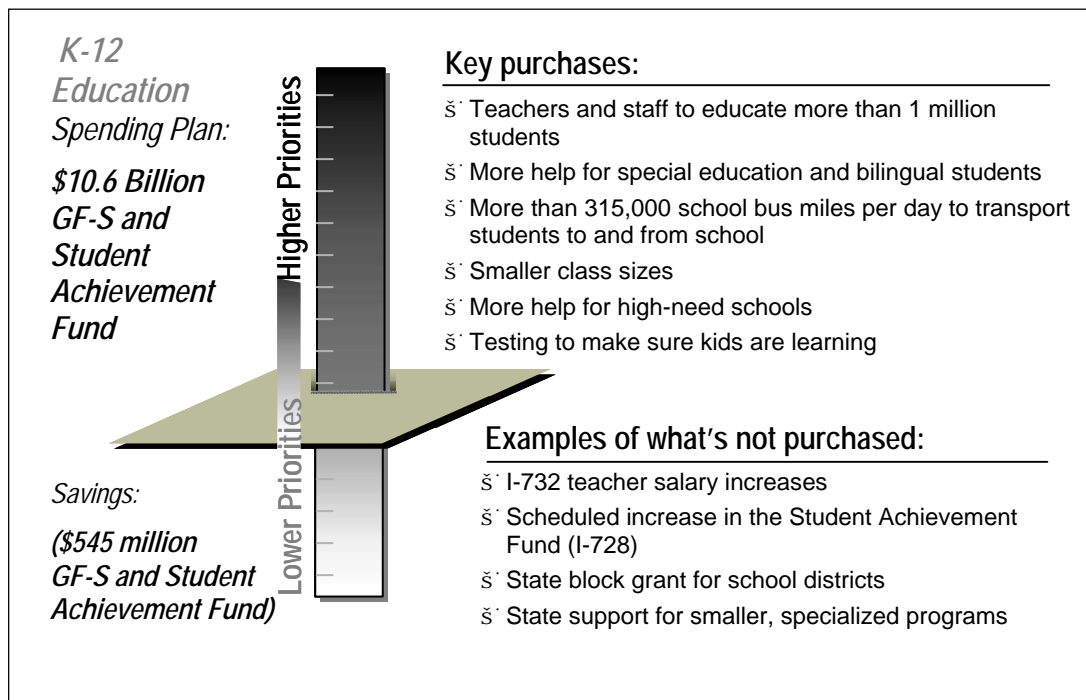
Maintaining the Commitment to Education

Educating our children is the state's paramount duty. Improving public schools is the best investment we can make to give our children a happy and prosperous future, and to provide a highly competitive economy and vibrant communities for everyone.

During the past decade, the state and its 296 local school districts have tried hard to help all children reach the high standards of achievement they will need to compete for growing opportunities available in the changing economy of the 21st century. There has been progress, but there is so much more to do.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those education services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following chart identifies key education purchases within the Governor's total state education spending plan. Some examples of what is not purchased also are included.





The Governor's Plan Buys:

Basic education services for the one million students served in Washington's 2,100 public schools. With state funding of \$4,200 per student, local school districts employ more than 67,000 teachers and staff to provide basic education services required for kindergarten through 12th grade students. *\$8 billion GF-State*

Current level of class-size reduction improvements and other services approved by voters under Initiative 728. *\$421.9 million, Student Achievement Fund*

Transportation for students to and from school. *\$425.6 million GF-State*

Low-cost school breakfast and lunch programs for children. *\$11.2 million GF-State, \$272.1 million federal*

High quality pre-school programs for 6,700 children. *\$52.8 million GF-State*

Additional special education services for 118,500 children with physical, mental and emotional conditions resulting in learning disabilities. *\$879.5 million GF-State, \$410.2 million federal*

Additional bilingual education services to 70,700 students whose first language is not English. *\$101.6 million GF-State, \$46.3 million federal*

Additional services to 16,600 highly capable, or "gifted," students. *\$11.2 million GF-State*

Institution-based education services to school-aged children who reside in institutions such as county detention centers, group homes, rehabilitation centers or state correctional facilities. *\$37.2 million GF-State*

Enhanced and focused State Learning Assistance and federal Title I funding to help selected schools educate high concentrations of students challenged by poverty. *\$150.5 million GF-State, \$307.2 million federal*

Governor Locke's Goals for Education

- Improve student performance
- Reduce gaps in student achievement affecting lower-income groups
- Increase the high school graduation rate

Investing in Success

Washington is home to some amazing schools. Each school has a unique story, but all share a deep commitment to teaching Washington's children.

Garfield Elementary in Spokane is one of these amazing schools. From innovative teachers to committed parent volunteers, it provides a vibrant learning environment to more than 400 students every day – many of whom come from low-income families.

In 1997, staff at Garfield analyzed data from previous years and determined that reading skills need to be improved. They collectively developed strategies to help students become better readers and the staff continues to have ongoing, weekly meetings to plan and maintain a coordinated, team focus.

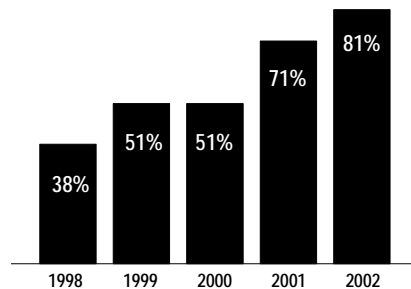
As a result, silent reading time for kids increased each day and teachers blocked out 90-120 minutes for daily literacy instruction.

Strong support programs that involve parents and the community are crucial to Garfield's success. At Garfield, family nights and monthly literacy lunches provide strategies for parents to help developing readers at home.

Big Brothers and Sisters volunteers come at lunch to read with students, and Gonzaga University teacher-education students partner with Garfield students to mentor and tutor through the AmeriCorps program. Garfield also opens its library during the summer for students to check out books and read with adults.

Soaring Scores Measure Success!

As a result of these efforts, Garfield's 2002 Washington Assessment of Student Learning (WASL) scores show **81 percent** of students meeting fourth grade reading standards (up from 38 percent in 1998).



In September 2002, Governor Locke and Superintendent of Public Instruction Terry Bergeson recognized Garfield as the Reading School of the Month.

"Reading is so important for academic success," the Governor told the students. "No matter what you want to do when you grow up, you have to start by being a good reader. I am so proud of all the progress that has been made in reading at Garfield Elementary."

Find out more about some of Washington's amazing schools at www.schoolofthemonth.org

Experts to help improve the state's lowest-performing schools.

Expands the state's Focused Assistance Program to serve 50 low-performing schools, which more than doubles the number of schools currently served.

\$7.5 million GF-State

Subsidies of local school levies for districts with below-average property values to help equalize property tax rates charged for school levies across the state.

School levies are critical in funding K-12 schools.

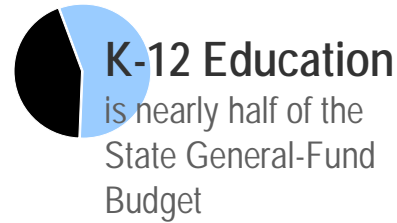
\$321.9 million GF-State

Spending adjustments and reductions

The Governor's budget increases state funding for K-12 schools by more than \$310 million. The increase reflects mandatory state funding for basic education programs, such as growth in public school enrollment, as required by the State Constitution. It also reflects rising health insurance costs for teachers and other staff.

But in a time of very limited state resources, large increases in state funding for schools must be delayed and cuts to non-essential programs are required.

The Governor's proposed K-12 budget saves state tax dollars in the following ways:



- €# Maintains class-size reduction funding already provided to school districts by Initiative 728, but eliminates the increase in class-size reduction funding scheduled by the initiative to take effect in the 2004-05 school year. *Saves \$220.7 million GF-State through reductions to the Student Achievement Fund*
- €# Eliminates scheduled annual cost-of-living increases for teachers and other school staff under Initiative 732. At a time when many Washingtonians are getting no pay increases, the state cannot eliminate critical services to provide a pay increase for employees – even teachers. *Saves \$212.1 million GF-State*
- €# Cuts \$112.2 million in non-basic education programs, services and administrative costs. The Governor reduces spending in areas that have the least direct impact on the classroom.



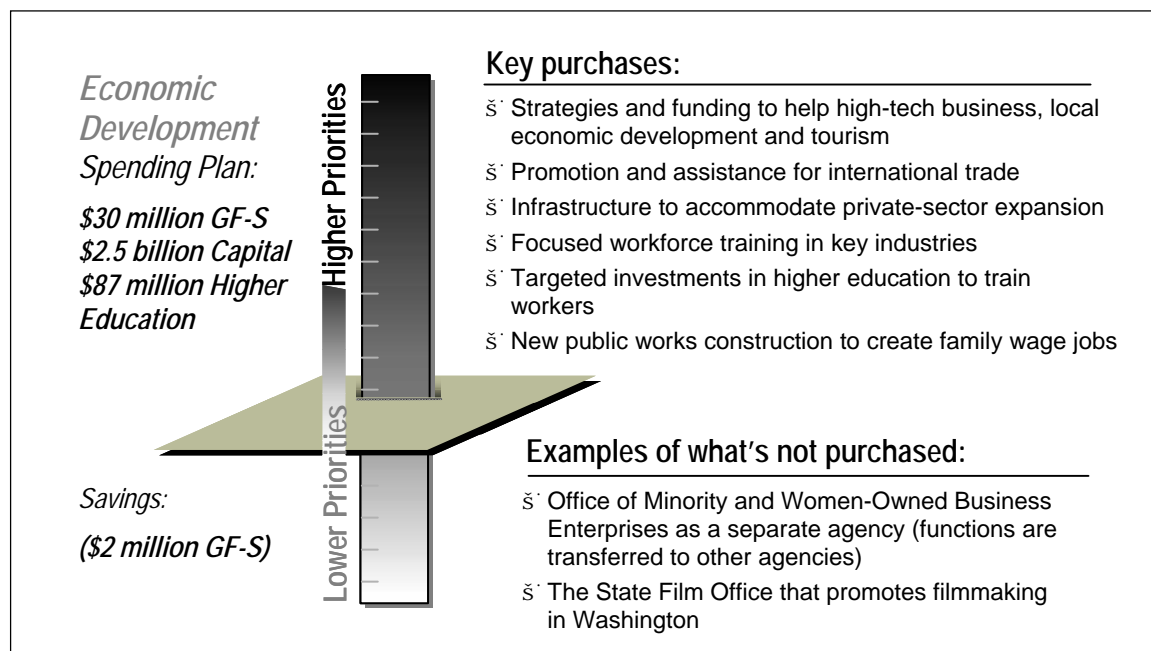
Improving Washington's Economic Vitality

Washington can and must take steps to make it easier for businesses to thrive and for workers to possess the skills to get family wage jobs. As the Governor's Competitiveness Council stressed, we must work with business to better harness our higher-education system to create a skilled, mobile workforce. The challenge is huge. While the recent recession was felt nationwide, it remains especially deep and persistent in Washington due to the downturn in the technology sector and weakness in the aerospace industry, exacerbated by events of September 11, 2001. During the past two years, Washington has lost nearly 80,000 jobs, and economists predict that economic recovery will be slow.

Governor Locke has developed a plan to provide a short-term stimulus to the economy while investing in longer-term programs to help Washington lead the world in 21st century technologies. His proposal also includes \$2.5 billion in new public works funding that will create thousands of high-paying construction jobs.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those services that effectively stimulate our economy. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following chart identifies key purchases within the Governor's total state economic development spending plan. Examples of what is not purchased also are included.





The Governor's Plan Buys:

Help for technology-based businesses, assistance for local economic development, and funds to promote tourism and sustain the Washington State Convention and Trade Center. *\$25.1 million GF-State, \$83.1 million other funds*

Promotion for international trade by providing aid to specific trade sectors, researching new trade opportunities, maintaining foreign trade offices and providing assistance to small businesses seeking to cultivate international trade opportunities. *\$5.3 million GF-State, \$140,000 other funds*

Infrastructure to accommodate private sector expansion, including funding to build sewer and water systems, clean up of contaminated sites to facilitate business development, and financing other necessary facilities for businesses and workers. A new provision helps local governments finance infrastructure by keeping and using up to \$5 million per year in state taxes generated as a result of the infrastructure improvements. Includes a proposal for permanent funding for the Community Economic Revitalization Board (CERB). *\$654.5 million assorted capital funds*

Workforce training resources for key industry sectors or clusters in each region of the state. Consolidates and targets existing state and federal funds to identify employment needs and help finance training of workers for these sectors. Uses existing funds at the Employment Security Department, the Workforce Education and Training Coordinating Board, and the State Board for Community and Technical Colleges. This strategy includes:

Targeting workforce education investments, so community and technical college high-demand training programs, rural and worker retraining programs, and Workforce Development Council programs provide skills needed by key strategic industries in each region of the state.

These industries include: oil refining, boat building/repair and transportation services in the Northwest region; biotechnology, information technology and aerospace in the Puget Sound area; semiconductors, pulp and paper, and other manufacturing in Southwest Washington; agriculture, food processing, wine and tourism in Eastern Washington; and metal fabrication, electronics, and health care in the Spokane area. *\$67 million GF-State*

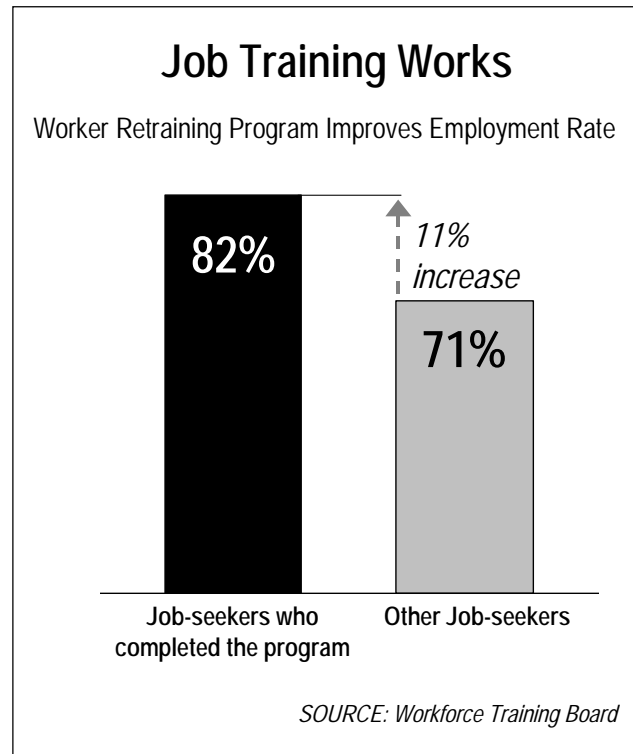
Governor Locke's Goals *For the **Economy***

- ' · Increase the percentage of people employed
- ' · Increase the percentage of prosperous individuals
- ' · Increase the percentage of profitable businesses
- ' · Increase possession of skills and abilities required by employers

€# **More college graduates in high-demand fields** by providing 1,550 higher education slots to train students in disciplines badly needed by businesses, including engineering, computer science and health care. *\$20.2 million GF-State*

€# **Skills training and family wage jobs** by building strong partnerships between business, labor, community colleges and other training providers. In addition, federal dollars are used to bring together industry associations, chambers, community colleges, and economic development and workforce councils in each region of the state. These groups identify skill gaps and job openings in strategic industries and provide training to meet specific workforce needs. *\$3 million GF-State, \$3.1 million federal*

€# **Upgraded skills for existing workers** by increasing customized training for workers of existing companies or firms that might expand or locate in the state. *\$1.1 million GF-State*



Creates high-paying construction jobs with \$2.5 billion in new public-works funding for projects including:

€# **New construction** at 40 state university and college campuses, particularly community colleges where rapidly increasing enrollment has created serious shortages of classroom space. *\$535 million state bonds*

€# **State matching funds** for school construction at 296 local school districts. *\$365 million Common School Construction Account and state bonds*

€# **876 high-security prison beds** and 100 intensive management units for problem prisoners. Additional construction funding is provided for adequate juvenile, mental health and developmental disabilities facilities, low-cost community housing and care for veterans. *\$306 million General Obligation bonds*

Choosing the right priorities for economic development

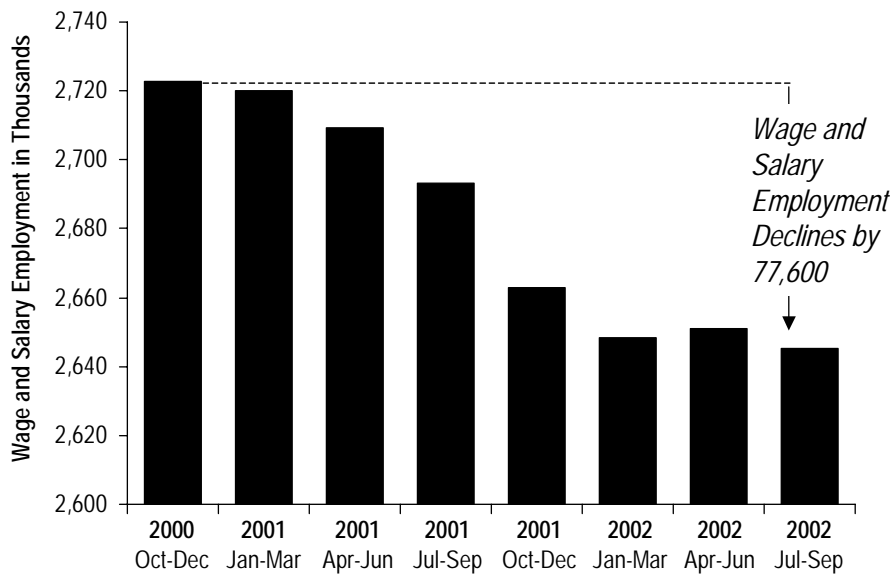
The Governor's budget proposal makes more efficient use of resources for assisting small and minority-owned businesses and other state resources. That means:

Moving certification of minority and women-owned businesses to the Department of Community, Trade, and Economic Development to allow for more efficient use of information about potential suppliers for local, state and federal contracts. *Saves \$1.3 million GF-State, 1.3 million other funds*

Eliminating the State Film Office, which provides movie-industry assistance.
Saves \$755,000 GF-State

Washington Has Lost More Than 77,000 Jobs

Since the last quarter of 2000



SOURCE: Office of the Forecast Council



Increasing Access to Quality Higher Education

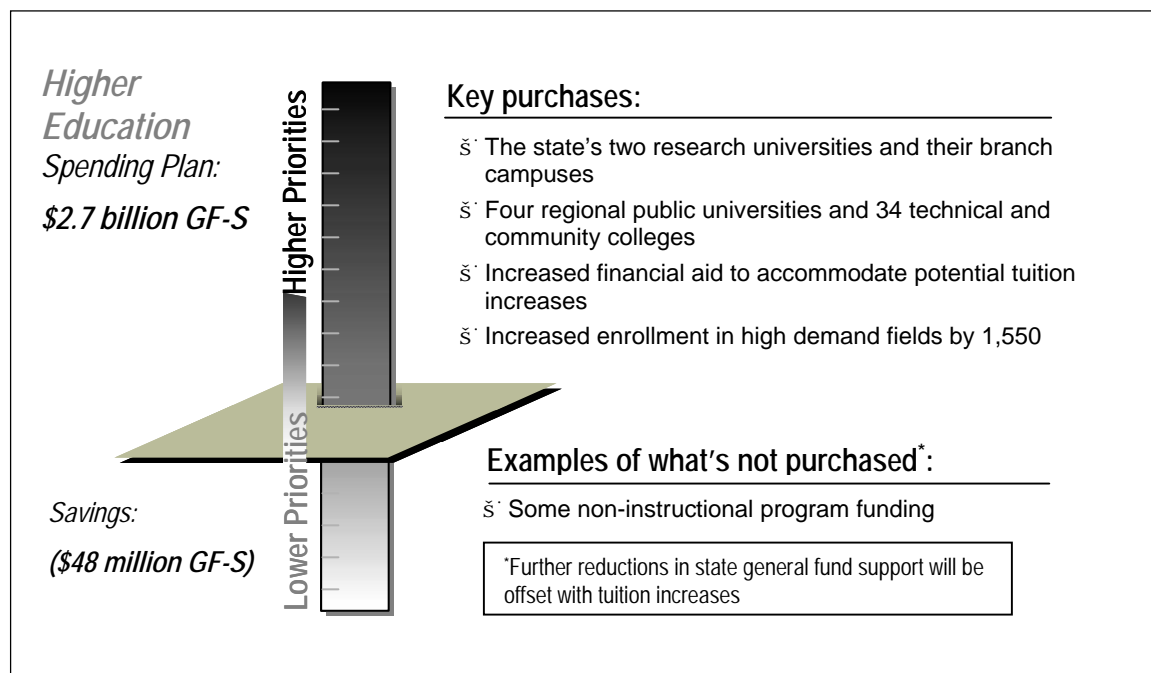
Demand for a college education is rising. Every state college and university is enrolling students at a pace that outstrips state funding.

Students at our colleges and universities expect their degrees to give them the tools and training needed to secure good jobs. The state's employers are demanding more from higher education and workforce training. Employers say they must have a highly educated workforce and more college graduates with specific skills and knowledge.

Individuals with a college education earn higher salaries and have more career options, but the state faces a big challenge in providing a college education for every deserving student.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those higher education services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following chart identifies key higher education purchases within the Governor's total state higher education spending plan.





The Governor's Plan Buys:

Support for the state's two research universities, the University of Washington and Washington State University. With combined enrollments of 54,840 students, UW and WSU are by far the state's largest higher education institutions. State dollars subsidize the cost of each undergraduate student by about \$5,000 per year. The subsidy for graduate and professional programs averages \$13,000 per student per year.

The UW includes one of the nation's finest medical schools and both universities provide extensive research opportunities that are highly valued by students and faculty – research that helps fuel Washington's economy.

\$922 million GF-State

Support for UW and WSU branch campuses in Bothell, Tacoma, the Tri-Cities, Spokane and Vancouver. The branch campuses provide undergraduates their junior and senior years of education, serving mostly students transferring from the state's community colleges. They also provide communities with education and economic development opportunities. *\$83 million GF-State*

Support for the four regional public universities – Western Washington University in Bellingham, Central Washington University in Ellensburg, Eastern Washington University in Cheney and The Evergreen State College in Olympia. With a combined enrollment of 30,540 students, these schools offer strong, four-year undergraduate disciplines and programs. *\$318 million GF-State*

Support for 34 community and technical colleges with a combined enrollment of 128,222. Community and technical colleges play a critical role in our education system, providing associate of arts (two-year) college degrees. They also provide a more affordable path to a four-year degree for community college students who move on to regional colleges or research universities.

Community colleges also provide community education services, instruction in English as a second language and basic education for adults. Many community services are provided at community colleges through fees and partnerships.

\$1 billion GF-State

Governor Locke's Goals for Higher Education

- ' · Increase percentage of adults completing degrees or certifications
- ' · Increase student and graduate satisfaction
- ' · Increase the number of students prepared to meet workforce needs

Student financial aid. Both the State Need Grant and the Promise Scholarship programs are continued to help students afford higher education.

The State Need Grant, which went to 53,000 students in 2002, provides help to students with incomes below 55 percent of median family income (currently \$35,000 for a family of four). The Governor increases need-grant funding by \$32 million to help students cope with anticipated tuition increases.

The Governor continues funding for Washington's Promise Scholarships, received by 6,500 eligible students in 2003. The program rewards low- to middle-income high school students who graduate in the top 15 percent of their class with two-year scholarships of almost \$1,000 per year. *\$300 million GF-State*

Dollars for high demand

Despite difficult budget choices, Governor Locke provides \$20 million in new funding to increase by 1,550 the number of enrollment slots in high-demand fields for which there is a shortage of highly qualified graduates. Examples include health care workers, computer scientists, and math, science and special education teachers.

The Governor's proposal reduces the appropriation to higher education by \$186 million, but allows college and university governing boards to increase student tuition to offset the reduction in state funding. Colleges and universities are given authority to set tuition levels, but increases for Washington residents who are undergraduates are capped for the 2003-05 Biennium at no more than 9 percent per year.

Fast Track to the American Dream: *One College's Approach to Workforce Training*

Success comes in many names at South Seattle Community College. There is Egor Bosniak, who took a job at Bank of America and finished his education at night. Slobodanka Milosevic landed a full-time job in accounting at Bank of America. Tanja Samardzija went to work at Swedish Hospital. Faduma Mohad found work at a Ross department store and Roderic Hondrade was hired full-time at the Post Office.

As Washington's community colleges respond to the demand for skilled workers, South Seattle Community College (SSCC) uses innovative short-term training programs that combine English-as-a-Second Language (ESL) instruction, vocational training and basic instruction for low-income adults. Each of the immigrant students mentioned above received 12 weeks of training – skills training and English instruction – that helped them find jobs quickly, and get a leg up on the American Dream.

Immigrants and refugees represent more than 55 percent of the students in SSCC's training programs. This produces a rich tapestry of culture and language in each class. Classes require at least two instructors in the classroom at the same time – an ESL instructor and the skills training instructor.

Older ESL training models require years of English and basic skills followed by a vocational skills program. During this lengthy process, family members often must work two or more minimum-wage jobs to survive. In the old model, a refugee or immigrant could be in school **four to eight years** before obtaining a living-wage job.

SSCC's innovative, short-term programs offer higher placement rates in less time. In the 2002 winter session, 50 students completed the Certified Nursing Assistant program and 49 passed the state exam. Within two years, more than 125 students earned their certification as nursing assistants. Ninety-five percent completed the course and 90 percent went to work earning \$11 - \$12 per hour.

South Seattle Community College has enjoyed five years of phenomenal success in a variety of career fields. One of SSCC's strongest features is its close partnership with community business and industry, community-based organizations and other government agencies.

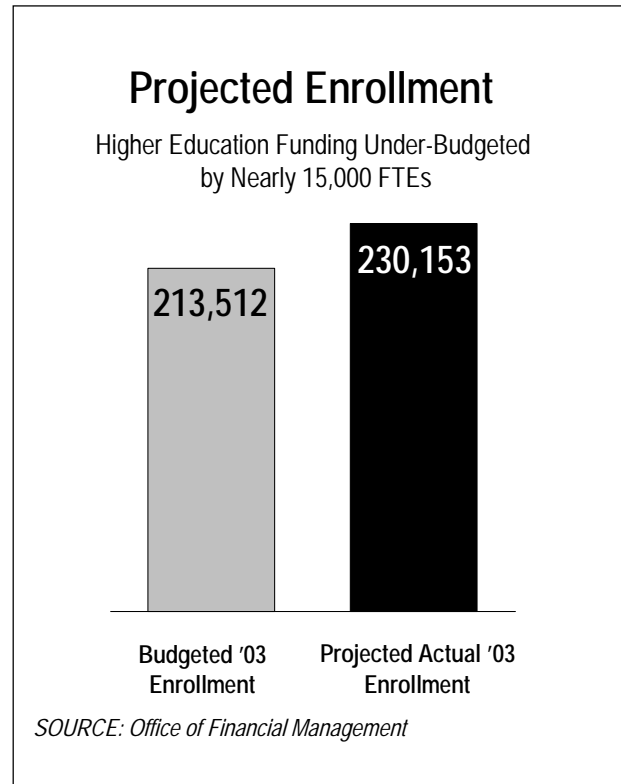


South Seattle Community College

The Governor's budget proposal includes a \$32 million increase in state-funded financial aid in recognition of the likelihood that institutions will increase tuition. Assuming tuition increases, all campuses are required to make efficiency cuts of 2.5 percent in non-instructional programs, saving \$40 million.

As always, college and university governing boards have a responsibility to continue scrubbing their budgets for savings and efficiencies on every campus.

Every dollar saved through efficiency or cut from lower-priority functions can be redirected to quality improvements and higher-priority activities. If higher education officials find and implement additional savings, the extra dollars can also be used to minimize tuition increases.





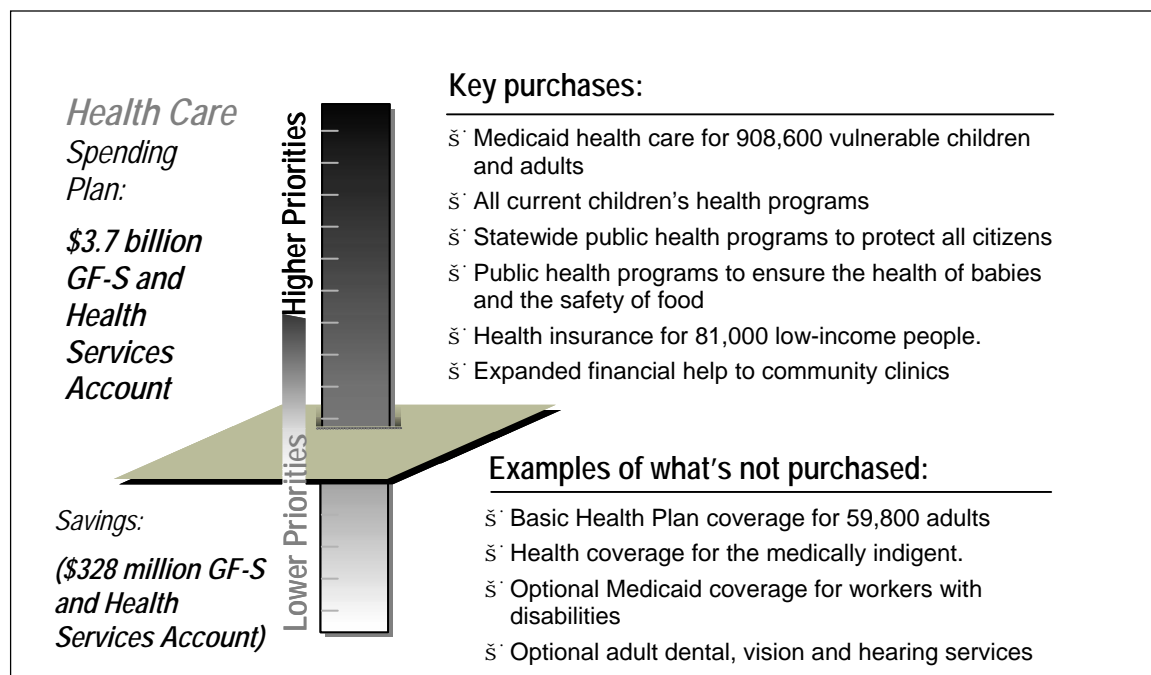
Maintaining the Health of Washington's Children

These are challenging times for anyone who buys health care. Health care costs continue to rise at more than five times the general inflation rate. In the next two years, the state faces a \$550 million increase in the cost of maintaining current Medicaid and Basic Health Plan services for low-income Washington residents.

Governor Locke's health care budget provides medical services for hundreds of thousands of Washington residents who otherwise could not afford to go the doctor. His plan recognizes the front-line role that the state's public health system plays in preventing and controlling outbreaks of disease. And it maintains all current health care programs for children, provides a safety net for the most vulnerable adults, but reduces Basic Health Plan coverage for certain categories of adults – so those most in need can be served.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those health care services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following chart identifies key health care purchases within the Governor's total state health care spending plan. Examples of what is not purchased also are included.





The Governor's Plan Buys:

Public health programs and statewide networks to protect a population of 6 million people.

Programs include communicable disease control, emergency preparedness and response, food and drinking water safety, shellfish programs, the Public Health Laboratory, and maternal and child health. Infrastructure maintenance includes direct grants to the 34 local public health jurisdictions serving Washington's 39 counties. Accountability for the grants is achieved through a contract using the Public Health Standards as a way to measure success in getting results. *\$127 million GF-State, \$621 million other funds*

Investments in preventative programs including expansion of the newborn screening program to add five disorders to the current blood test and new hearing tests. These programs allow for early identification and intervention of treatable disorders, improving the health of affected children. Further investments are made in food safety to increase training, increase prevention-oriented activities and develop a comprehensive food security (bio-security) plan. *\$1.2 million GF-State, \$600,000 federal*

Medicaid health care to 704,671 Washington citizens for whom Medicaid services are required under federal law. These are the most vulnerable citizens of our state who – because of income, age, or disability – require help with health care. For every dollar spent by the state for Medicaid, the federal government contributes an additional dollar. *\$2.3 billion GF-State, \$345 million Health Services Account-State, \$2.6 billion federal*

Non-mandatory Medicaid health care to 204,000 other vulnerable Washington citizens, such as lower-income aged, blind or disabled individuals, women with breast or cervical cancer, and children. *\$149 million GF-State, \$85 million GF-Local, \$814 million GF-Federal, \$279 million Health Services Account*

Continued insurance coverage for all 21,424 children and 59,399 parents currently covered under the state's Basic Health Plan. *\$319 million Health Services Account-State*

A health care safety net with expanded grants to nonprofit community clinics for basic medical care for people living below 200 percent of poverty and who have no other coverage such as Medicaid or Basic Health. Increasing the current state grant by \$22 million will allow 42,500 additional people to be served in these settings. *\$41 million Health Services Account*

Governor Locke's Goals for Public Health

- ' · Maintain and improve the state's public health system
- ' · Preserve health care coverage for the state's most vulnerable and needy people
- ' · Shore up the safety net to help those who will lose health insurance coverage

Squeezing every health care dollar

The Governor's proposal calls for more efficiencies and cost-saving activities to stretch state dollars available for health care. They include:

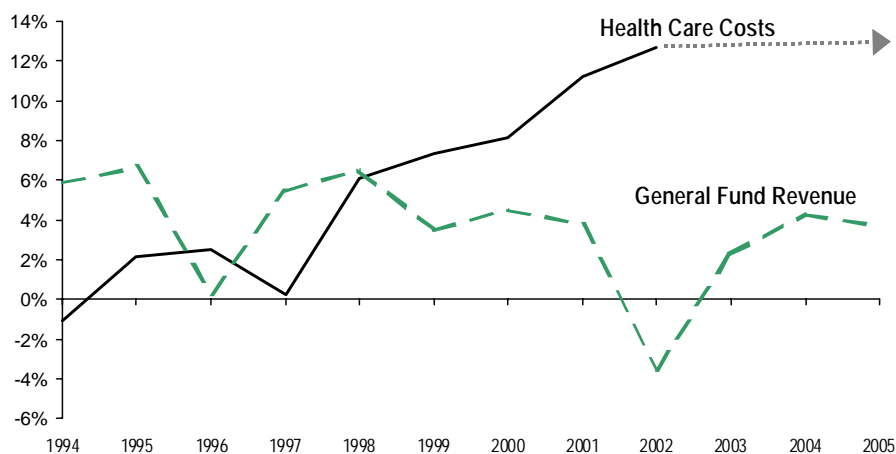
Implementing a Prescription Drug Purchasing Project. Three state agencies that engage in major prescription drug purchasing will develop a preferred drug list and consolidate their purchasing where possible. The three agencies are the Medical Assistance Administration, Health Care Authority and Department of Labor and Industries. Savings will be gained by purchasing drugs that are proven to be the most cost-effective. The project will strengthen interagency collaboration, put a greater focus on evidence-based health care and strengthen the state's purchasing power. *Saves \$24 million GF-State, \$23 million federal, \$8 million Medical Aid Account-State, \$3 million in various other accounts.*

Applying more controls to Medicaid eligibility. Eligibility for Medicaid health care benefits will be reviewed every six months rather than every year. Further, the enrollment process will be aligned more closely with the Basic Health Plan's requirements, including the need for proof of income eligibility. *Saves \$10 million GF-State, \$23 million federal, \$13 million Health Services Account.*

Tying increases in Managed Care rates to the state's cost of living index. The rates the state pays for managed care health coverage have historically been higher than the inflation rate. The most recent managed care rate increase was 8.9 percent. In the coming biennium, those increases will be tied to the Seattle Consumer Price Index, a measure of the local cost of living, and will apply both to the Medicaid and the Basic Health programs. *Saves \$28 million GF-State, \$53 million federal, \$35 million Health Services Account*

Cost of Health Care Coverage Outpaces State Revenue

Percent Change in Per Capita Health Care Costs Compared with General Fund Revenue



SOURCE: Office of Financial Management

Amending Initiative 773 to use its new cigarette tax revenue – originally intended to expand the state’s Basic Health Plan for working families – to instead minimize enrollment reductions now necessary to simply sustain the health insurance program. *\$219 million Health Services Account*

Implementing the Long-Term Care Health Management Project. Provides more up-front preventive health care in nursing homes to avoid costly hospitalizations, unnecessary medical tests and other expensive medical interventions. *Saves \$6 million GF-State, \$6 million federal*

Making difficult choices with limited health care funds

Governor Locke proposes spending limited funds on the most vulnerable citizens first – children and adults who are most in need. This means it is necessary to eliminate:

- €# Insurance coverage for all 59,753 childless adults currently covered under the state’s Basic Health Plan. *Saves \$274 million Health Services Account-State*
- €# The medically indigent program, affecting 4,242 individuals. While this translates to a greater burden of uncompensated care on hospitals and doctors, \$40 million in the Disproportionate Share Hospital program will be available to mitigate the impact on those providers who serve uninsured residents. *Saves \$81 million GF-State, \$54 million federal*
- €# Optional hearing, dental and optical benefits for adults otherwise covered by Medicaid. This aligns adult Medicaid coverage more closely with adult coverage in the Basic Health program and enables more people to keep some insurance. *Saves \$52 million GF-State, \$50 million federal*
- €# Optional Medicaid coverage to workers with disabilities. This program, begun in February 2002, provides Medicaid benefits to Washington residents who are age 16 through 64, meet federal disability requirements, are employed (including self-employment) full or part time, and have monthly gross income at or below 450 percent of the federal poverty level. *Saves \$1.5 million Health Services Account, \$1.5 million federal*



Caring for Vulnerable Children and Adults

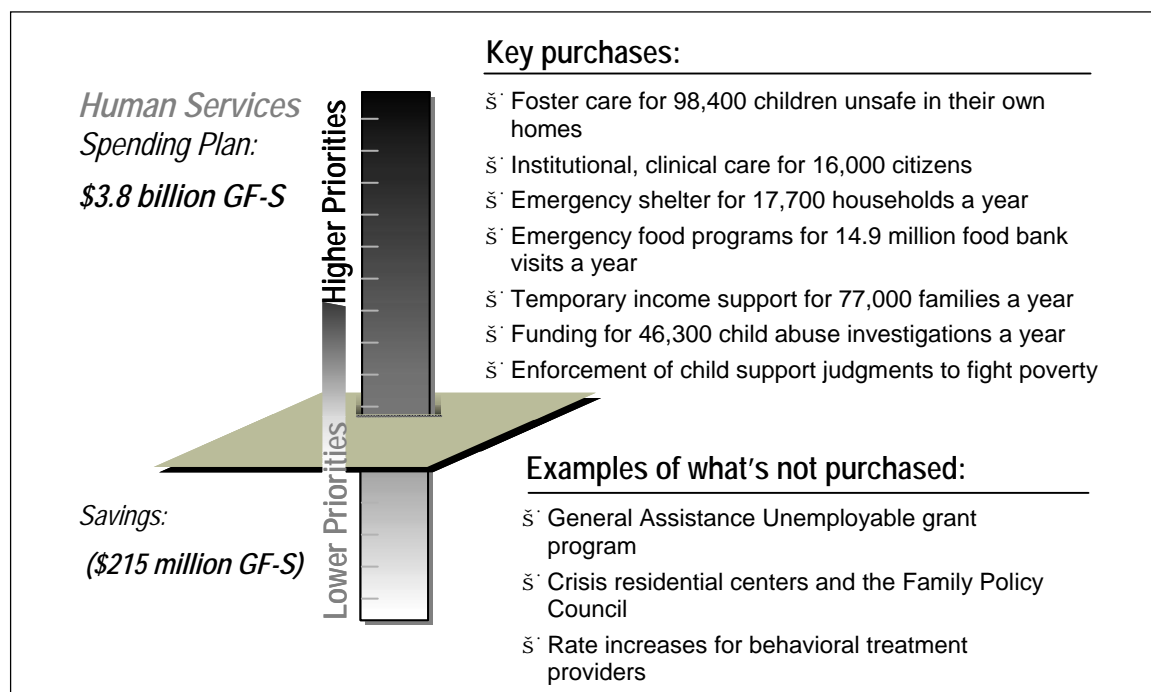
Washington citizens have a duty to provide food, shelter and physical safety to the most vulnerable among us:

1. Children whose families are unable or unwilling to help them.
2. Disabled adults whose personal or family resources are insufficient to meet their basic needs.

The majority of Washington families, including those with children or disabled family members, are able to meet their own basic living needs. But some cannot, either temporarily or on a long-term basis. A main purpose of state government is to help the most vulnerable with basic living needs until they can provide those things for themselves.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those human services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following chart identifies key purchases within the Governor's total state human services spending plan. Examples of what is not purchased also are included.





The Governor's Plan Buys:

Emergency food programs as a safety net for an estimated 14.9 million food bank visits a year by hungry people. *\$14.6 million GF-State, \$3 million federal and other funds*

Emergency shelter programs for an estimated 17,720 homeless households. *\$10.2 million GF-State, \$11.7 million federal and housing trust funds*

Emergency or temporary income support to 77,000 indigent families with children, or single adults unable to work due to a disability. *\$426 million GF-State, \$243 million federal*

Continued support for 46,300 investigations a year of suspected abuse or neglect of children or vulnerable adults. *\$69.1 million GF-State, \$82,314 million federal*

Institutional care services to 15,766 indigent, disabled individuals whose level of disability requires clinical care and supervision 24 hours a day, 7 days a week. *\$789.2 million GF-State, \$854.3 million federal*

Community residential programs for 14,900 indigent, disabled individuals who cannot safely live in their own homes. *\$363.0 million GF-State, \$111.5 million federal*

Foster care services for 98,400 children who are not able to safely remain living with their own families. *\$220.9 million GF-State, \$111.5 million federal*

In-home care supports so that 37,300 vulnerable children and adults can continue to live safely in their own homes and do not have to be placed in more restrictive care settings. *\$503.5 million GF-State, \$524.2 million federal*

Specialized outpatient behavioral treatment for thousands of at-risk, indigent children and adults. *\$452 million GF-State, \$513.4 million other funds*

Governor Locke's Goals for Human Services

- ' · Increase the percentage of people living above the poverty line
- ' · Increase the percentage of people living in permanent, safe homes or community settings
- ' · Increase the percentage of people who make progress toward self-sufficiency

Help for 42,300 low-income families to purchase substitute care and supervision of children to ensure their safety when their primary caretakers are at work. *\$105.4 million GF-State, \$588.5 million federal*

The tools to pursue child support judgments to increase the likelihood that custodial parents will have the economic means necessary to support their children. *\$49.9 million GF-State, \$207.6 million federal*

Employment training and support services for low-skilled parents or disabled single adults to increase their chance of finding gainful employment. *\$147.1 million GF-State, \$427.5 million other funds*

Skills training, respite care and support services to help at-risk families care for and support children and vulnerable adults. *\$122 million GF-State, \$105.6 million federal*

One in Five People in Washington Receives State Human Services



Source: DSHS

Spending reductions, adjustments to meet basic needs first

Fewer dollars and growing demand requires reductions in virtually all areas of the human services budget, and an even greater focus on the most critical services. The state priority must be to help vulnerable Washington citizens whose health and safety are at immediate risk.

Governor Locke's budget proposal recognizes that some non-emergency services still are needed to avoid far more costly crisis intervention. It is better to prevent child abuse than deal with the aftermath. But the Governor's proposal funds only services proven through real evidence to be effective in preventing immediate health and safety crises, or in helping vulnerable individuals achieve independence from hunger, homelessness and abuse.

The Governor prioritizes spending for human services to save \$215 million. Some of the services and programs eliminated in this proposal include: the Family Policy Council, saving \$2.5 million; the Washington Council for the Prevention of Child Abuse and Neglect, saving \$1.3 million; Crisis Residential Centers, saving \$9.3 million; and the prevocational training program for the developmentally disabled, saving \$9 million. The offices of the Long-Term Care Ombudsman and the Family and Children's Ombudsman are eliminated, saving nearly \$2 million.

Mental health funding for Regional Support Network Community Services is reduced by \$20.7 million, meaning local networks must prioritize services for the most acute needs. The grant portion of the General Assistance Unemployable program, which has a monthly caseload of 6,600 individuals, is eliminated to save \$40 million.

In keeping with the Governor's search for better ways to do business, funding is reduced by about 30 percent for six community programs – from Family Reconciliation Services to the Hope Center and Street Youth Services – and rolled into block grants to communities, giving more autonomy in how \$20.5 million in funding is used to help communities.

Rate increases for children and youth behavioral treatment services are reduced by \$17.8 million. Reimbursements for non-direct nursing home services are reduced, saving more than \$34.8 million in payments to nursing homes. But direct care reimbursements for high-need nursing home clients will be increased by \$7.8 million.



Protecting The safety of People and Property

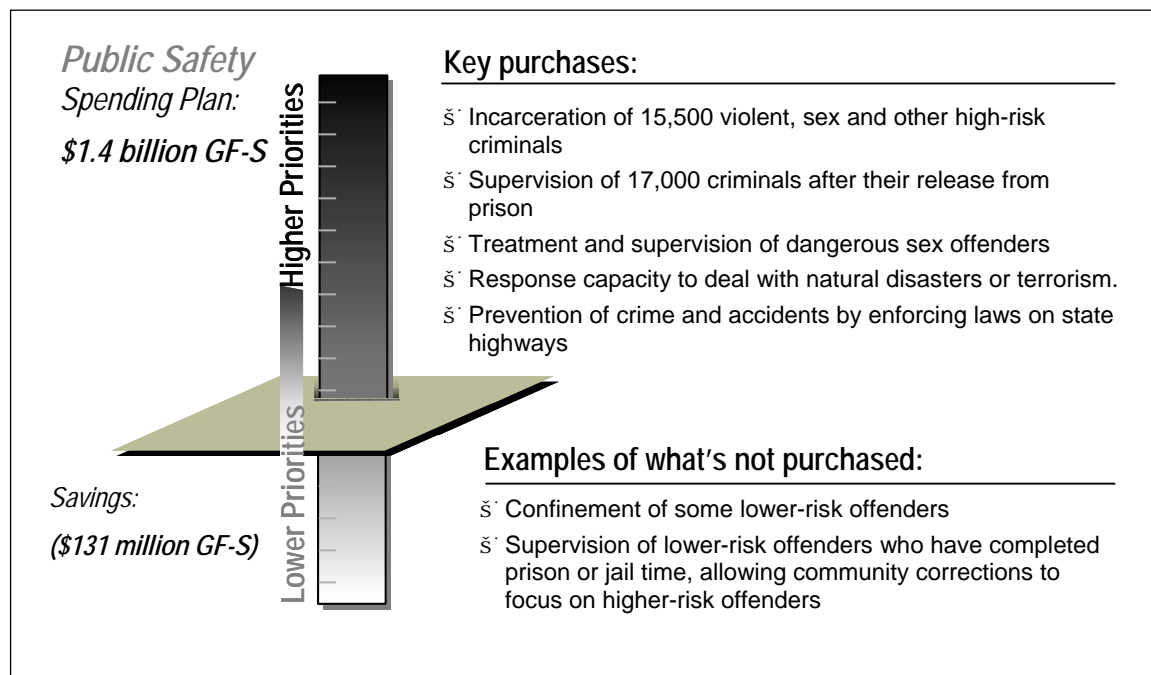
Washington communities must be protected from crime, accidents and natural or human-caused disasters. Citizens expect this protection and it is among government's most important responsibilities.

Keeping Washington safe requires a three-part strategy:

1. Prevention – to keep crime, accidents, injuries and property damage from happening.
2. Preparedness – to be ready to do what is needed when accidents, disasters or crimes do occur.
3. Response – to minimize harm, ensure accountability and assist victims.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those public safety services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following chart identifies key purchases within the Governor's total state public safety spending plan. Some examples of what is not purchased also are included.





The Governor's Plan Buys:

Imprisonment of 15,500 violent, sex and other high- to moderate-risk adult offenders.
\$739 million GF-State

Treatment and supervision of more than 200 dangerous sex offenders committed to the Special Commitment Center and placed in communities by courts, after they have completed their prison sentences.
\$61 million GF-State

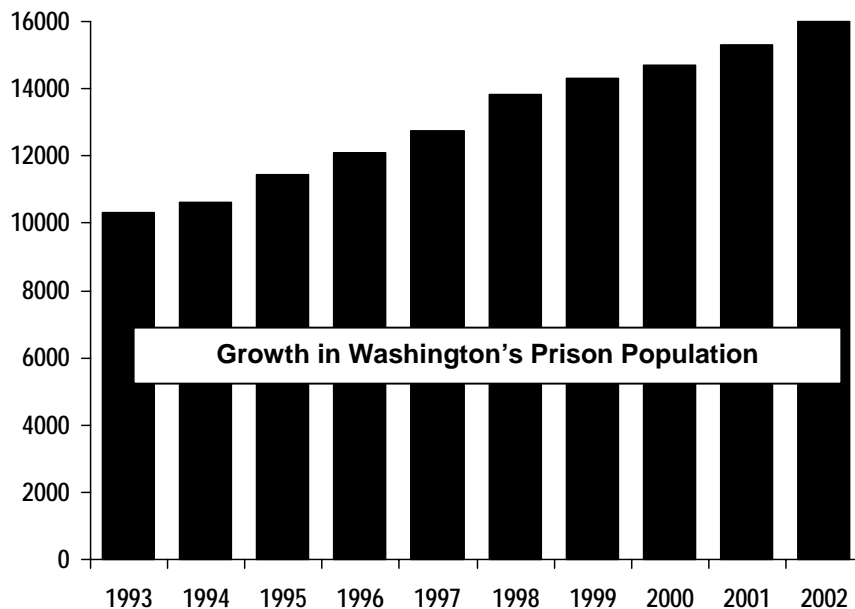
Confinement and treatment of 800 serious or chronic juvenile offenders in state institutions. *\$89 million GF-State*

Reduced risk of repeat crimes by supervising and treating 17,000 adult and 1,300 juvenile offenders in the community after release from confinement.
\$230.8 million GF-State

*Governor Locke's Goals for **Public Safety***

- ' · Reduce preventable loss of life, injury and property due to crimes, accidents and natural or human-caused disasters
- ' · Increase readiness to respond to emergencies
- ' · Increase citizens' confidence in the safety of their communities

Demand for Prisons Has Risen more than 60% in the Last Ten Years



SOURCE: Caseload Forecast Council

Justice and accountability for criminals through our state courts.

\$82 million GF-State, \$69 million other funds

Basic and vocational education, mental health, drug and other treatment for 4,800 prison inmates who will return to our communities. *\$194 million GF-State*

High-technology help to solve crimes and arrest offenders through the work of crime laboratories, the DNA database, statewide criminal records and other support for local law enforcement.

\$13.2 million GF-State, \$38.1 million other funds

Compensation for crime victims for financial losses and medical costs, with 6,000 claims this year alone. *\$30.6 million other funds*

Aid for 80,000 crime victims a year through advocacy, treatment, shelters and other services.

\$10.3 million GF-State, \$21.5 million other funds

Help for at-risk youth through community-based intervention, treatment and residential programs in the juvenile justice system. *\$34.9 million GF-State*

Safer highways by enforcing criminal and traffic laws, and helping accident victims.

\$261 million other funds

Protection from terrorist attack through the State Patrol, Department of Health and Military Department. *\$1.1 million GF-State, \$94.6 million other funds*

Citizen involvement in crime prevention through local community mobilization programs.

\$6.2 million other funds

Emergency preparedness for disasters through the National Guard and the Division of Emergency Management. *\$16.5 million GF-State, \$84.7 million other funds*

Accident prevention and property protection by licensing 4.4 million Washington drivers, registering 6.2 million vehicles and operating traffic-safety programs. *\$340 million other funds*

Making the right choices to stretch public safety dollars

Governor Locke proposes to make the best use of limited resources to keep our citizens safe and still meet other service needs.

More than two-thirds of state public safety funding goes for adult inmate and post-prison supervision costs. These costs can be cut with minimal risk to safety by reducing the number of low-risk offenders the state incarcerates and supervises.

The Governor proposes to save \$99.6 million and reduce employment by 592 full-time positions by:

- ## Releasing 1,200 offenders from prison by implementing the newly enacted sentencing grid for drug crimes a year ahead of schedule, and providing earned early release for property offenders not convicted of violent, sex or serious drug crimes. These changes would affect about 7 percent of the state prison population of almost 17,000 projected through the next biennium.
- ## Eliminating state supervision of another 2,900 low-risk offenders who have completed prison time, and 22,000 who have completed jail sentences. This allows community correction officers to focus on the high-risk offenders who present the greatest threat to community safety after they leave prison.



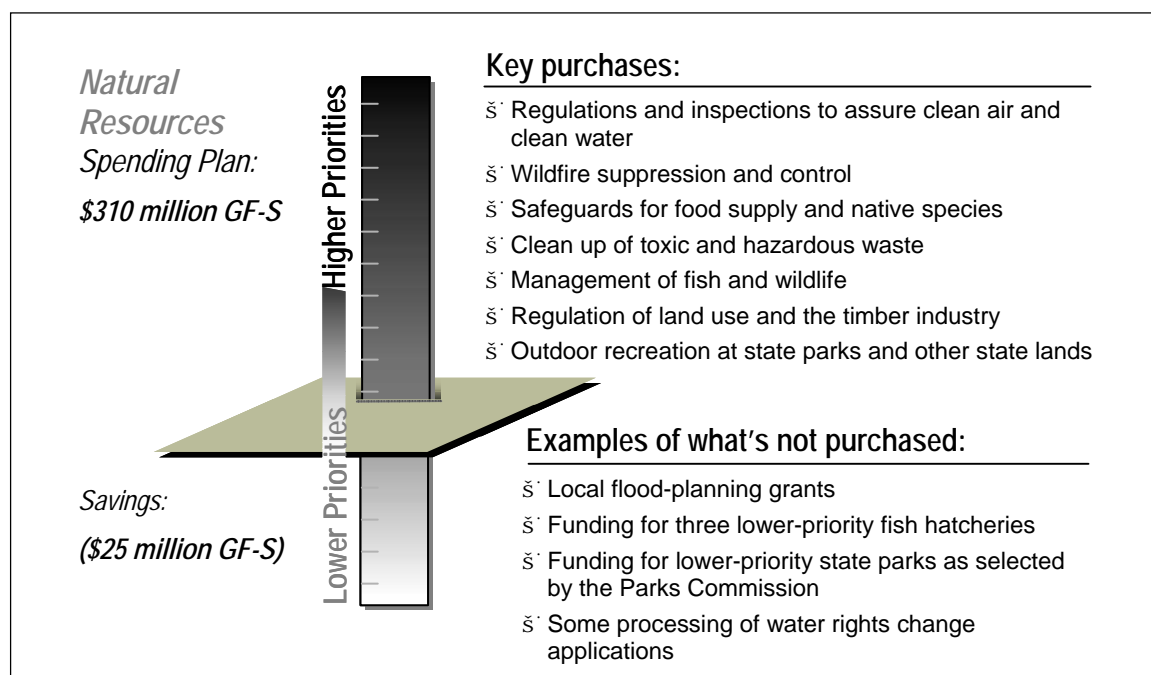
Protecting the State's Natural Resources

Washington citizens cherish the state's natural resources, and they depend on state government to both protect and accommodate reasonable use of these treasures. This balancing act focuses on getting results in four key areas: clean air; clean and abundant water; appropriate land management; and protection of fish, wildlife and plants. These results are important for effective stewardship of Washington's natural resources, but also provide great benefits to citizens and the economy.

Clean air has saved Washington citizens and businesses more than \$2.1 billion a year in health care costs since 1990. Clean, abundant water is essential and lack of it already is limiting growth in our state. Locally developed land use management reduces sprawl and associated costs for roads, sewer systems and drinking water. Proper management of fish and wildlife sustains commercial and recreational opportunities, which support rural economic growth.

Funding Priorities: How they stack up

The Governor addresses a huge budget deficit by purchasing only those natural resource services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following graphic identifies key purchases within the Governor's total state natural resource spending plan. Examples of what is not purchased also are included.





The Governor's Plan Buys:

Public health and quality of life by safeguarding clean air through permitting, monitoring and enforcement of laws, and by protecting clean water through technical and financial help, permitting, and monitoring of pollution. *\$20.5 million GF-State, \$49.8 million other funds, plus \$40 million in state capital spending*

Protection of people and property by fighting wildfires on state and private timber and grass lands. *\$33.7 million GF-State, \$23.1 million other funds*

Health of the food supply and native species through inspections and monitoring programs – including the Department of Agriculture's food safety programs and inspections of fruits, vegetables, other commodities, and weight and measure devices – to ensure that only quality agriculture products enter the market place. It also includes monitoring of plant and animal health to protect native species and agriculture. *\$10.9 million GF-State, \$58.3 million other funds*

Enhanced quality of life with public recreation opportunities at state parks, as well as winter and snowmobile recreation, and grants for boating-safety activities. *\$53.4 million GF-State, \$51.3 million other funds*

Management and protection of the state's land now and for the future. State trust lands are managed both to preserve the resources and to produce revenue for public schools, universities, counties and other trust beneficiaries. Additional funds are provided to replace the Department of Natural Resources' outdated revenue management system. *\$1.8 million GF-State, \$91.5 million other funds*

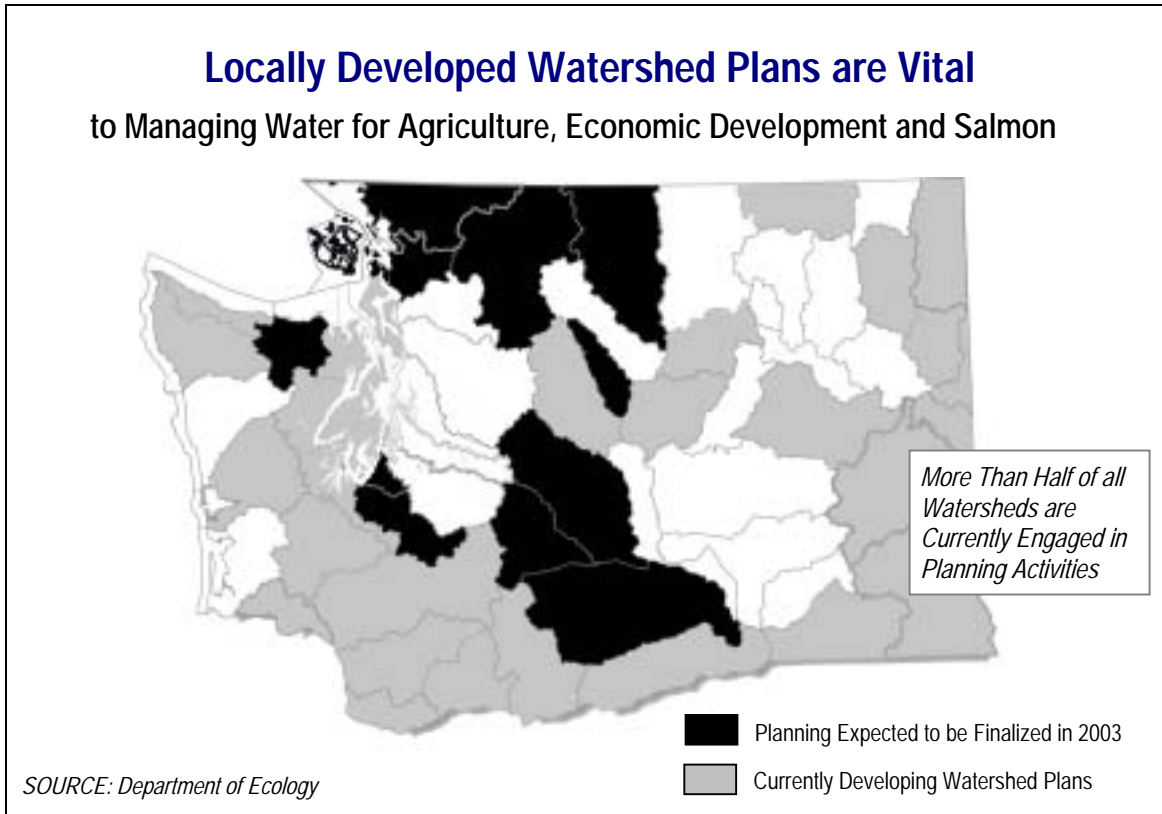
Administration of leases, port agreements and clean up of contaminated sediments on state aquatic lands. Additional funds are provided to develop a management plan for state aquatic lands to meet the requirement of the federal Endangered Species Act and to meet a legal settlement for the clean up of the Thea Foss Waterway. *\$19 million other funds*

Implementation of the Shoreline Management Act and Growth Management Act to protect wetlands, coastal areas and water bodies. New funding is provided for grants to local governments to implement revised master shoreline programs to meet new requirements. *\$18.3 million GF-State, \$14.1 million other funds*

*Governor Locke's Goals for **Natural Resources***

- ' · Improve the percentage of days with healthy air
- ' · Improve the percentage of water bodies and their sources meeting cleanliness standards
- ' · Reduce the impact of land converted to urban areas
- ' · Improve trends in fish stocks and wildlife populations

Watershed planning and allocation of water resources to provide water to meet the needs of people, agriculture and fish, and monitors the state's water bodies to provide data for good resource decisions. Also includes new capital grant dollars for water storage projects as well as other critical water infrastructure projects in watersheds critical to salmon recovery. *\$23.9 million GF-State, \$34.6 million other funds, plus \$12 million in state capital spending*



Action to address past and future environmental hazards. Toxic waste sites are cleaned up and hazardous waste is reduced to protect people, fish and wildlife, and make land and water usable. Oil spill prevention and response to protect water bodies, as well as fish and wildlife, is included, as well as the cleanup of nuclear and radioactive waste at the Hanford Nuclear Reservation. *\$68,000 GF-State, \$89.4 million other funds, plus \$45 million in state capital spending*

Protection and restoration of fish and wildlife to comply with the federal Endangered Species Act and to ensure the economic and environmental health of our watersheds. Grants are provided to support local and regional salmon recovery efforts. State fish hatcheries are operated to reduce the impacts of hydropower projects, meet tribal treaty obligations and provide commercial and recreational opportunities. New funding is included to improve hatchery practices and administration of hydraulic permitting, and to begin implementation of salmon and watershed recovery monitoring. *\$68 million GF-State, \$153.9 million other funds, plus \$107.8 million in state capital spending*

Regulation of timber harvest on state and private lands to protect fish and wildlife, water quality, and to meet federal law. New funding is provided for staff to operate and maintain the forest practice data systems. One-time funding is also provided to fulfill the obligations of a forest practices legal settlement. Additional capital-grant funding is included to help small forest landowners meet the requirements of the Forest and Fish law. *\$23.3 million GF-State, \$18.5 million other funds, plus \$3 million in state capital funding.*

Continued efforts to protect and restore Puget Sound through water quality, habitat and fish and wildlife monitoring, clean-up of contaminated sediments, control of aquatic nuisance species, and the Puget Sound Action Team. Additional funding is provided for marine bird habitat and population assessments, as well as development of statewide action plans to control the release of mercury and dioxin in to the waters of the state. Funding for a Puget Sound Rescue tug is also included. *\$12.9 million GF-State, \$17.9 million other funds*

Choosing the right priorities for natural resources

Spending on natural resources focuses first on preventing further degradation to our state's natural environment. Even in tough economic times, it is important that the state not lose ground in natural resources protection.

However, tough economic times require a close examination of all natural resources activities. Overall, the Governor's budget reduces General Fund spending for natural resource agencies by \$20.1 million, but spending through other funds is increased by \$8.9 million. A portion of the General Fund savings is achieved by transferring \$13.5 million of certain environmental protection responsibilities currently financed by the General Fund to dedicated natural resources funds, and by consolidating or eliminating \$25.1 million in less critical services.

A sample of programs or services that are eliminated include state fish hatcheries at Naselle, Hurd Creek and Coulter Creek, the Washington Agricultural Statistic Service at the Department of Agriculture, and closure of several low-priority state parks as selected by the Parks and Recreation Commission. Among the largest reductions are a \$2 million cut for water-rights processing at the Department of Ecology, \$2 million in flood-planning grants, and \$3 million for the Department of Natural Resources Forest Stewardship program, geologic map library and primitive campsite maintenance.

The Governor's budget proposal also includes measures to improve the efficiency and administration of state natural resource agencies. Specifically, it consolidates the State Conservation Commission with the Department of Agriculture, and combines several dedicated funds within the Department of Ecology and Fish and Wildlife Department to reduce administrative costs and increase the agencies' ability to fund higher-priority activities.



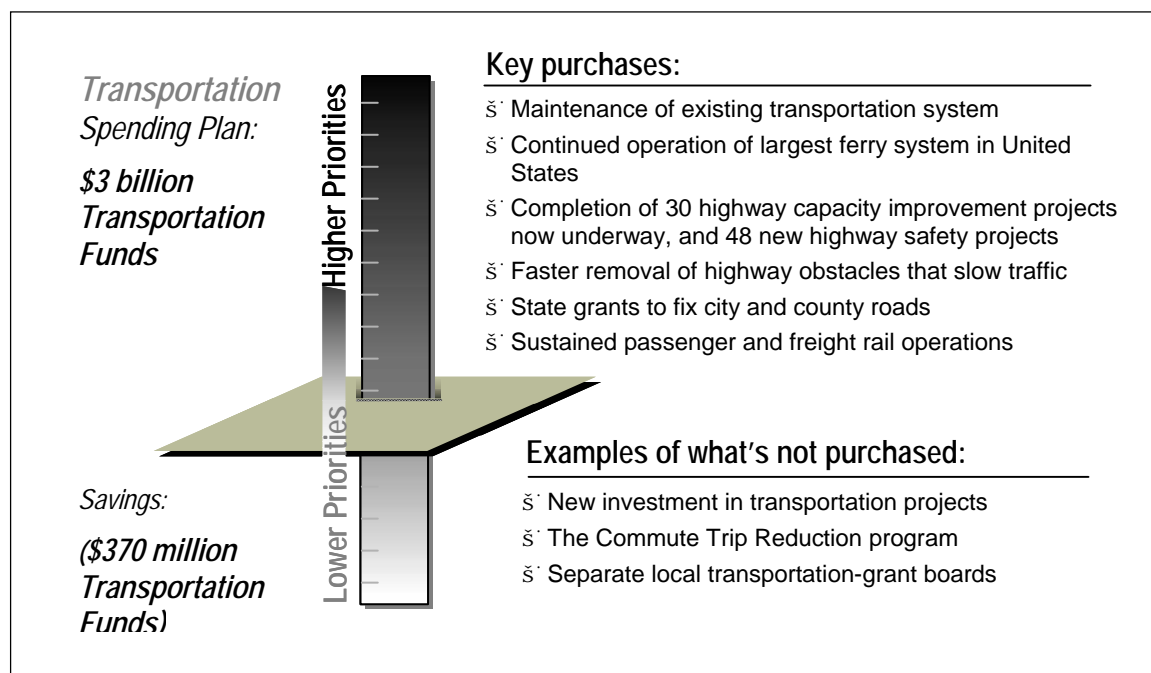
Preserving the Public's Investment in Transportation

Washington's transportation system is the backbone of the state's economy. Governor Locke's highest transportation priority is preserving and maintaining taxpayers' \$100 billion investment in the state's transportation system. We must keep Washington's transportation assets in good working condition to keep drivers safe and protect our quality of life. Virtually all existing transportation funding is needed for essential preservation, maintenance and operation of roads, bridges, ferries and rail.

The Governor is aggressively pursuing ways to make the transportation system work better, including roving service patrols and real-time traffic management and traveler information. But to significantly improve the transportation system, more funding is needed. The Governor will continue to seek additional transportation dollars to ensure a brighter future for Washington.

Funding Priorities: How they stack up

The Governor addresses declining transportation revenue by purchasing only those transportation services most needed by citizens. He does not purchase services that, while still considered valuable, have been identified as lower priority. The following graphic identifies key purchases within the Governor's total state transportation spending plan. Examples of what is not purchased also are included.





The Governor's Plan Buys:

Preservation of our existing state transportation system, which includes more than 7,000 miles of state highways, nearly 3,400 bridges, 29 ferries and 20 ferry terminals. Major investments include replacing the eastern rise of the Hood Canal Floating Bridge, replacing the Yakima River Bridge on State Route 240, and resurfacing 3,458 lane miles of state highways.

\$659.3 million Motor Vehicle Account and other funds

Continued operation and maintenance of the largest ferry system in the United States, serving eight Washington counties and British Columbia. The ferries carry more than 11 million vehicles and 26 million people a year. The Governor's budget preserves the existing service and routes. *\$327.4 million Puget Sound Ferry Operations Account*

Safer highways by finishing 48 highway safety projects statewide. These projects will address a portion of high-accident corridors and locations. *\$96.4 million State Motor Vehicle Account and other funds*

Completion of 30 highway capacity improvement projects now in construction. Projects to be completed over the next two years range from widening State Route 510 in Lacey to widening State Route 525 in Mukilteo, improving access to State Route 519 in Seattle, and adding additional lanes to US 12 east of Pasco and State Route 240 in Richland. *\$293.3 million Motor Vehicle Account and other funds*

Protection of our existing state highway system by fully funding the highway maintenance program. State highway crews repair pavement, fill potholes, fix signals, clear snow and ice, sweep and clean, paint stripes, replace and repair guardrails, and maintain 42 safety rest areas. *\$295 million Motor Vehicle Account and other funds*

Better traffic flow with faster removal of blocking vehicles, debris and other obstacles. Highway incidents are a major cause of highway congestion, and at least half are minor, road-blocking situations. An additional \$5 million is provided to expand an existing incident response program to further cut the time it takes to clear roadways, saving motorists time and money. *\$39.2 million Motor Vehicle Account and other funds*

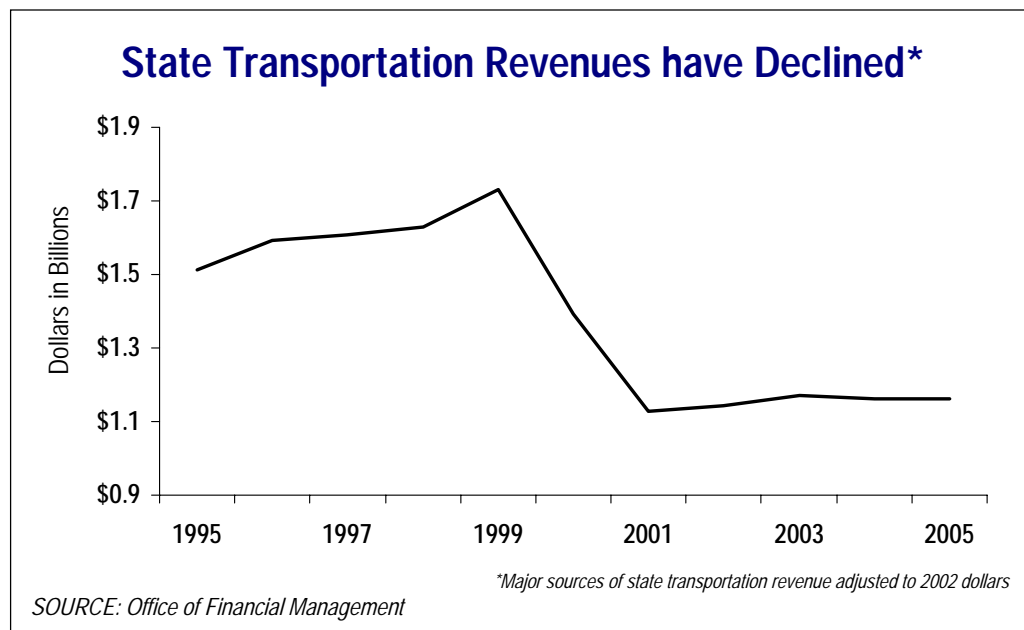
Governor Locke's Goals for Transportation

- ' · Dedicate existing dollars to preserve and protect our transportation investments
- ' · Make transportation spending more accountable to citizens
- ' · Finish those projects currently under way
- ' · Target scarce remaining dollars to better operate and manage highways
- ' · Expand new regional authority to all metro areas in the state
- ' · Secure new funding to build badly needed transportation projects

State grants to fix and improve city and county roads. Cities and counties combine these competitive grant dollars with local transportation revenue to maintain and improve more than 40,000 miles of county roads and 14,000 miles of city streets. *\$275.3 million various transportation accounts*

Continued passenger and freight rail operations and preservation. Amtrak Cascades passenger rail service will continue to provide three daily round trips between Seattle and Portland, and two daily round trips between Seattle and Bellingham. From 1999 to 2001, the number of riders grew by 16.4 percent on the Amtrak Cascades corridor, moving more than 500,000 passengers per year. *\$41.7 million Multimodal Transportation Account and other funds*

Continued efforts to strengthen and increase accountability in transportation spending and performance, including quarterly performance measures, cost comparisons with other states, financial audits by the State Auditor and better cost estimates.



Scarce Transportation Dollars Mean Reductions, Adjustments

Washington State has fewer state dollars for transportation today than it did a decade ago. Governor Locke focuses scarce dollars on preservation, maintenance, and operation of core transportation assets and services. That means:

Completing current highway improvement construction projects but deferring new investments. Highway construction investments over the last few years have remained constant even after the elimination in 2000 of more than \$400 million a year in Motor Vehicle Excise Tax revenue. Many of these recent projects were bought on credit with bonds for which repayment is guaranteed by existing gas tax revenue.

The existing 23 cents-a-gallon gas tax no longer can support additional bond sales without hurting current highway maintenance and preservation activities. Adding capacity to a system that can't be properly maintained would be shortsighted. The Governor's proposal completes work in progress but does not over-obligate gas tax revenue to finance additional improvements. Reduces program to match available revenue. *\$362.5 million less than in the previous biennium*

Eliminating the commute trip reduction program. State law requires major employers in the state's nine most populous counties to make a good-faith effort to cut the number of vehicles traveling to worksites. The Department of Transportation supports the Commute Trip Reduction Program with \$5.5 million in direct and indirect assistance to employers to encourage workers to use carpools, buses and other transportation means. The Governor will use these scarce dollars for improved incident response service, saving an estimated 22,000 hours of delay per year for the traveling public. *Redirects \$5.5 million*

Combining local grant functions into one state agency. The Transportation Improvement Board, the County Road Administration Board and the Freight Mobility Strategic Investment Board provide grants to help fund much-needed local projects. Sometimes these boards contribute funds to the same projects. The Governor will continue the state's commitment to local freight, city, and county projects through a single, consolidated local transportation grant board. In addition to anticipated administrative savings, grant applicants will follow one application process – instead of three. *Saves \$2.2 million*